

# Economic and monetary chronicle

## September 2005

On September 15, Straumur Fjárfestingarbanki investment bank was renamed Straumur – Burðarás Fjárfestingabanki.

On September 29, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.75 percentage points to 10.25%. Other Central Bank interest rates were also raised by 0.75 percentage points. Interest rates on one-week certificates of deposit and the repo rate were raised as of October 4 and other rates as of October 1.

On September 30, Burðarás investment company was divided up and its separate parts were merged into Straumur – Burðarás Fjárfestingabanki and Landsbanki respectively, on completion of all the conditions for merger which had been laid down in an agreement from August 1. Burðarás was thereby removed from the register of companies.

## October 2005

On October 1, the draft budget for 2006 was presented to Parliament. It assumed a budget surplus of 14 b.kr. The bill also presented the Government's medium-term fiscal programme for 2006-2010.

On October 3, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Iceland. The IMF Staff Report on the current economic outlook and prospects was compiled after Iceland received a regular staff visit in June. Four Selected Issues Papers were also completed on Simple Efficient Policy Rules and Inflation Control in Iceland; Some Illustrative Simulations of the Potential Impact of Income Tax Cuts in Iceland; Mortgage Market Developments in Iceland and the Role of the Housing Financing Fund; and Corporate Leverage: How Different is Iceland? On October 14, the Staff Report was published on the IMF and Central Bank of Iceland websites.

On October 3, the share capital of Landsbanki was increased by the nominal amount of 2,120 m.kr. The additional shares were delivered to Burðarás's shareholders as partial payment for their shares in that company. After the announcement, Landsbanki's nominal registered share capital amounted to 11,020,677,803 kr.

On October 3, the share capital of Straumur – Burðarás Fjárfestingabanki was increased by the nominal amount of 4,575 m.kr. The additional shares were delivered to Burðarás's shareholders as partial payment for their shares in that company. After the announcement, Straumur – Burðarás Fjárfestingabanki's nominal registered share capital amounted to 10,675,747,810 kr.

On October 3, the share capital of Straumur – Burðarás Fjárfestingabanki was reduced by the nominal amount of 316 m.kr. The reduction of shares was carried out in accordance with the agreement on the acquisition of shares in Burðarás Fjárfestingarbanki whereby shares owned by Burðarás in Straumur at the time of merger would be cancelled and the share capital of Straumur reduced accordingly. After the announcement, Straumur – Burðarás Fjárfestingabanki's nominal registered share capital amounted to 10,359,144,971 kr.

On October 31, the share capital of Kaupthing Bank was increased by 3,867,413 shares. The objective of the increase was to fulfil the terms of employee stock option agreements. The total nominal share capital of Kaupthing Bank after the increase was 6,645,530,530 kr.

On October 31, Standard & Poor's Ratings Services affirmed its AA-long-term foreign currency and AA+ long-term local currency sovereign credit rating on the Republic of Iceland. At the same time, the A-1+ short-term foreign and local currency ratings on Iceland were affirmed. The outlook is stable.

#### **November 2005**

On November 14, Landsbanki announced that all conditions had been satisfied for its acquisition of Kepler Equities SA and the transaction had been completed. Kepler Equities thereby became part of the Landsbanki group. Landsbanki acquired 82% of the total shares of Kepler Equities for 76.1 million pounds sterling (5.8 b.kr.) and will acquire the remaining shares over a five-year period.

On November 15, the joint committee of the Icelandic Federation of Labour (ASÍ) and Confederation of Employers (SA) reviewing the wage agreement between their members concluded that the price assumptions underlying the current wage agreements had not held. The wage section of the agreements was renegotiated. A one-off payment of 26,000 kr. was agreed for December 2005. This is equivalent to an additional wage rise of roughly 0.65% over the 13 months from that time. If wage settlements are not revoked in the second review in November 2006, wages will go up at the beginning of 2007 by 0.65% on top of the 2.25% originally negotiated in 2004. The social partners also agreed on principles for revising unemployment insurance. The Government of Iceland issued a declaration (see below) that it will sponsor legislation on changes agreed by the social partners and finance the measures with payments from the Unemployment Insurance Fund. Under the ASÍ/SA agreement, unemployment benefit will be earnings-related with a ceiling of 180,000 kr. Earnings-related benefit will be paid from the tenth weekday of unemployment, for no longer than three months over a three-year period. Entitlement to benefit will be renewed over a period of twenty-four months. Basic unemployment insurance benefit will be 96,000 kr. when the new law enters into force in 2006, instead of 93,821 kr., and be revised in step with wage changes at the beginning of 2007.

On November 15, the Government of Iceland issued a declaration on its measures to facilitate the wage review agreement between ASÍ and SA. The Government presented a four-point package: First, a contribution of 100 m.kr. to vocational training and retraining of unskilled workers. Second, measures to facilitate a more even distribution of the disability pension burden between pension funds covered by the agreements between ASÍ and SA with a contribution equivalent to 0.25% of the national insurance base, to be implemented over the period 2007-2009. Based on current forecasts for unemployment insurance revenues, this measure would cost the Treasury 1.5 b.kr. Third, the Government will sponsor legislation on temporary employment agencies for approval by Parliament before the Christmas 2005 recess. Fourth, the Government pledged to sponsor legislation on changes to the payment of unemployment benefits in line with the ASÍ/SA agreement, financing the measures with payments from the Unemployment Insurance Fund.

On November 22, Fitch Ratings upgraded Íslandsbanki's individual rating to B/C from C and affirmed the other ratings at long-term A, short-term F1 and support 2. The rating outlook is stable.

On November 22, Fitch Ratings assigned Kaupthing Bank ratings of long-term of A, short-term F1, individual B/C and support 2. The rating outlook is stable.

